

TRADE PAPER

by Edna Camacho

I INTRODUCTION

The evaluation of USAID's projects in the Foreign Trade Policy and Institutions sector attempts to judge the role and importance of these projects in terms of their impact. USAID's support in this sector was present in two periods, which correspond to clear stages in Costa Rica's foreign trade policy. First, in 1961-1972, i.e., in the import substitution period. Second, in 1982-1993, i.e., in the export promotion period.

The evaluation is based on information related to the projects themselves (project papers, logical frameworks, evaluations, and such) and on interviews made to people who work or worked at the implementing institutions, public officials related to the foreign trade sector and private sector representatives.

In the next section, a sector overview is presented. It describes and analyzes the main events and results of different periods, namely, 1950-1962, 1963-1972, 1973-1982 and 1983-1994. In the third section, a description of the main projects that USAID supported is presented. This description is organized by implementing institutions rather than by projects. Reference to specific projects is made, however. The description includes the conception and purpose of the program/project, its approach, main activities and results. These results are based mainly on information drawn from the evaluations performed during or at the end of the projects, and from the interviews.

At the end of each program/project's description, a judgement about its impact is given. This judgement is based not only on the results obtained, but also on the justification of the project itself and on its sustainability. In order to determine the impact of the projects, no attempt is made to measure their attribution to specific performance indicators, such as export sales, employment or investment. This type of attribution measure is only mentioned when a specific evaluation is cited. Finally, lessons drawn from each experience are presented.

After this, a fourth section adopts a more general view (not project specific), in which the underlying philosophy of the projects is analyzed, in terms of its correspondence to, both, the "state of the art" and Costa Rican environment. Some concluding remarks regarding the impact of the projects and the main lessons for USAID and the country are presented.

II SECTOR OVERVIEW

A 1950-1963

During the first half of this century, Costa Rica was characterized by the production and export of a few agricultural products, mainly coffee and banana. In 1940, for instance, coffee exports accounted for the 53 percent of the total exports, while banana for the 25 percent. Cocoa exports represented an 8 percent. In the next decade, this feature remained. Both, banana and coffee exports accounted for the 88 and 84 percent of total exports during the 1950-1954 and 1955-1959 periods, respectively (Table 1). The country followed what has been called an agro-exporting model.

In the late fifties and early sixties, however, an agricultural diversification process took place, particularly in beef and sugar production. Nevertheless, the country remained with a high concentration and dependence on the production and export of mainly three or four commodities. As a consequence, economic growth was highly influenced by the international prices' fluctuations of these primary products. Particularly important for the emergence of a wider support to the industrialization process and the Central American Common Market in Costa Rica, was the fall in the coffee prices at the end of the fifties and beginning of the sixties (Table 2).

In 1959, the Industrial Protection Law was enacted, although the first draft was proposed in 1953. It is important to remember that at that time, the existing manufacturing enterprises were small, family-owned and concentrated in traditional consumer goods (Céspedes y González-Vega, 1993). Food processing, beverages, tobacco, textiles, shoes, clothing, lumber and wooden furniture and accessories accounted for about 80 percent of industrial output in 1955. Costa Rica was, then, an agricultural nation and there was no much enthusiasm to enter an industrialization process. This explains why the Chamber of Industry was not very successful in promoting the passage of an industrial promotion law until the fall in the coffee international prices at the end of the fifties and beginnings of the sixties, which strengthened the need to find new sources of foreign exchange to reduce the vulnerability of the Costa Rican economy to international price movements. At the same time, the Central American countries were trying to create the Central American Common Market (CACM), highly influenced by the conceptions of the Economic Commission for Latin America (ECLA). The ECLA significantly contributed in the early fifties in the form of theory, promotion and technical assistance.

Costa Rica ratified its incorporation to the CACM in 1963, although the other Central American countries had already ratified it by 1960. The administration at the time wished to maintain Costa Rica out of the CACM. Again, the debate about the relative importance of agriculture and manufacturing for the country's economic development was present (Céspedes y González-Vega, 1993). It was not until 1962 that the government (from a different political party) signed the General Treaty on Central American Economic Integration and not until 1963 that the National Assembly approved it. Pressure to join the CACM came, at a national level, from the Chamber of Industry and, at an international level, from the United States government through the establishment of this integration as a precondition for Alliance for Progress.

B 1963-1972

1 Policy instruments

The integration process relied on the enlargement and protection of the market. To achieve the enlargement, free regional trade was established and to achieve the protection, a common external tariff for the five countries was placed¹. Before this, each country had tariff restrictions at a national level and bilateral trade treaties existed among some of the

¹ According to a World Bank study cited by Mc Camant (1972), the median of the list of ad valorem rates of duty of the common tariff was 64 percent, compared to the previous 44 percent.

countries. This process was expected to result in wider investment possibilities, greater labor specialization and competition within the region. This would allow an industrialization process at a time when the industrial sector accounted for a 14 percent of the domestic product.

However, intra-regional free trade was obstructed by several factors which indicated that "free trade had not transcended the negotiation stage" (Mc Camant, 1972). First, instead of providing free trade for all the commodities, the countries established a list of exceptions. One group of products was allowed a five-year exception and another group was definitely excluded from free trade. Agricultural products made up most of the exceptions. The reasons to make these exclusions were to avoid regional competition that would hurt existing producers and to avoid a fall in fiscal revenues. Second, the countries unilaterally hampered the free flow of goods already liberalized. In some cases, sales or consumption taxes were imposed. Third, lack of attention to the functioning of intraregional customs, which was translated in high custom costs and excessive sanitary controls. Fourth, the entrepreneurs themselves established restrictive practices to reduce regional competition.

It is important to point out that at the beginning of the process, the integration was conceived as a previous stage to the development of non traditional exports to world markets. Accordingly, the protection of the domestic market was initially conceived as temporary, until the countries had the necessary conditions to penetrate those markets. That is, the infant industry argument was appealed. However, as occurred in many other countries, the elimination of this protection became very difficult in view of the interest groups behind it and of the regional nature of the agreements. Although the countries had agreed to harmonize import duties and to establish a common tariff within five years, a rigid and slow procedure of tariff unification prevailed (Mc Camant, 1972). First, a slow negotiation process took place and once the tariff levels were agreed upon, a protocol was signed. Then, legislative approval at a national level was required, which sometimes took a long period.

Mc Camant (1972) points out that this rigidity led individual producers to look for more flexible mechanisms to obtain protection. On the other hand, the governments competed among themselves to attract investment, which brought about higher levels of protection than those established by the common tariff.

In 1962, all five countries signed the Fiscal Incentives Law (*Convenio Centroamericano de Incentivos Fiscales al Desarrollo Industrial*), which established several benefits for industrial enterprises: import duty partial or total exemptions for raw materials, capital goods and semi-processed goods, income tax exemption or deduction for certain types of investment expenditures (for instance, firms could deduct from their taxable income the amount invested in capital goods). These incentives were granted through the so called industrial contracts.

Other important instruments or policies that gave special incentives for the industrial sector were: overvalued colón and, for some periods, preferential exchange rates, subsidized interest rates which were sometimes negative in real terms, import surcharges since 1976 initially imposed only on imports of consumer goods from outside the region, 30 percent surcharge of the common external tariff (the *Protocolo de San Jose*) for some imported goods, the 3 percent consular tariff and the 4 percent "timbre hospitalario" and, higher selective consumption taxes for imported goods from outside the region.

All these instruments created a high nominal and effective protection for the production of industrial goods in the Central America and domestic market. Also, a high dispersion between the protection rates for different activities resulted. Protection was high for consumer goods, whose imports could be substituted by regional production and low for capital and intermediate goods not produced within the region.

Since the middle of the current century, there has been state intervention in the basic grains sector, which has created protection in some of these activities (mainly rice). This intervention has been characterized by the search of two contradictory objectives: production promotion and price stabilization. The first objective was to be achieved by support prices for producers and the second by maximum prices for consumers. Protection in these sectors came also from non-tariff barriers, mainly import and export quotas as well as prohibitions. The *Consejo Nacional de Produccion* (CNP) was in charge of this role.

2 Early results

In the first decade of the integration process, the results were quite positive. The industrial gross domestic product in Costa Rica grew at 13.7 and 9 percent during 1962-1966 and 1966-1970, respectively, compared to a 3 percent growth rate during the 1957-1962 period (Table 3). Similarly, industrial exports grew at 71 and 12.9 percent rates, respectively, most of which went to Central America (Table 3). Exports to Central America, for instance, grew from 3.9 million dollars in 1963 to 47 million dollars in 1971. The industrial sector was clearly very dynamic during that period and this changed the economic structure of Costa Rica. This sector represented 14.9 percent of GDP in 1950 and 19.2 in 1969.

Lizano and Sagot (1984) describe the 1963-1968 period as a stage that corresponded to the enlargement of the market and the boom of the import substitution strategy. In the next period, 1968-1973, when industrial gross domestic product and exports grew at a lower rate than in the previous period, Lizano and Sagot point out that the market had already established limits to the expansion of exports and the possibility to substitute imports was reduced.

The CACM, although larger than the domestic market, was still insufficient to allow an adequate degree of specialization, competition and opportunities for exploiting economies of scale. The protectionism, at the same time, did not induce the industrial sector to become efficient and competitive. On the other hand, the structure of protection (high for final goods and low for intermediate and capital goods) had created a structural dependence on imports of intermediate and capital goods. Moreover, after one decade, the industrial sector did not show to be able to compete outside the CACM. In 1972, only 7 percent of total exports was sold to countries outside the region.

C 1972-1982

At the beginning of this period, it was clear that exports were more diversified. Exports to Central America represented around a fifth part of total exports. Traditional exports (coffee, banana, beef and sugar) had a 73 percent share, compared to 85 percent in 1963.

During this decade, the integration process lost even more dynamism due, not only to

the smallness of the market, but also to the regional and international conditions. The consequence was a reduction in the expansion rate of regional trade and the emergence of payment problems among the countries.

During the 1974-1978 period, Costa Rican exports to Central America grew, but at a lower rate (11.4 percent) than in the previous periods. In the 1978-1982 period, they fell at a 1.3 percent rate. A similar behavior is observed in the industrial gross domestic product, it grew at a 7.4 and -2.3 percent, respectively (Table 3). Only slight changes in the structure of industry took place. Consumer goods still represented an important share of industrial output by 1976 (67 percent), although lower than in 1960 (77 percent), according to the World Bank (1980). Some intermediate goods showed an increase in their importance, such as the chemical and non-metallic minerals sectors.

It is important to point out four features of the integration process in the case of Costa Rica, which illustrate that although the process contributed to the industrial sector's development, this was mostly due to the protectionist policies than to the exports to the CACM.² First, the domestic market absorbed great part of the industrial production. In other words, the exports to the CACM were less important. For instance, during the 1976-1981 period, the exports to the CACM represented between 7.5 and 10.8 percent of the industrial gross domestic product (Lizano and Sagot, 1984). This was a general feature in all the countries, Mc Camant (1972) asserts that less than 20 percent of the five countries' industrial output was traded regionally between 1962 and 1967. He relates the growth in the industrial output during this period to the increase in the local demand rather than to the economic integration, and the appearance of low valued added industries to the fiscal incentives. Second, the value added of the exports was relatively low, which was to be expected because of the structure of protection. Third, the exports to the CACM had a high component of import goods (raw materials, intermediate and capital goods). This created a structural dependance on imports and did not reduce the vulnerability to external factors that the import substitution strategy was expected to achieve. Fourth, the industrial exports generated nearly a half of the dollars they needed for the imports of raw materials, intermediate and capital goods. That means that the primary exports played an important role in the development of the industrial sector.

The tariff exemptions for imports of capital goods, overvalued colon, subsidized credit and preferential income tax treatment for capital expenditures not only led to a new type of dependance on this type of goods, but also stimulated the production in capital-intensive industries and underutilized capacity.

The development of the industrial sector, however, brought about some intangible benefits such as a more dynamic entrepreneur sector, a better trained (and more productive) labor force and new technological knowledge. Unfortunately, the lack of competition did not impose enough pressure to achieve an adequate level of these conditions in order to export to world markets. Moreover, the lack of competition led to many inefficiencies, such as use of non-optimal plant sizes, X-inefficiencies and, in general, insufficient conditions to export to world markets.

Exports to world markets were difficult to develop not only because of the mentioned

2 See Lizano and Sagot (1984)

factors, but also because of the so called anti-export bias. This bias appears for three main reasons. First, the protection of the regional market favors the relative price of the production for this market compared to the production for world markets. This is aggravated by an overvalued exchange rate. Second, the protection of raw materials, intermediate and capital goods increases the production costs of national enterprises and, thus, reduces their competitiveness in front of external rivals. Third, export taxes were imposed on non traditional goods. In addition to the anti-export bias, an anti-agriculture bias was created.

However, during this same decade some instruments were established to stimulate exports to outside the region. Under the *Ley de Fomento a las Exportaciones*, enacted in 1972, some incentives were created for firms that exported to third markets and that fulfilled the condition of having at least 35 percent of domestic value added on their export products. First the *Certificado de Abono Tributario* (CAT), which was a 12 to 15 percent subsidy on the export value (depending on the domestic content level). For eligibility, it was also necessary to have at least 60 percent of Costa Rican capital. Second, the *Certificado de Incremento de las Exportaciones* (CIEEX), which was a 1 to 10 percent subsidy on the export value increase in one year compared to the previous one, and granted only for one year. Third, beneficiaries of this law could receive a reimbursement or franchise of the taxes paid on raw materials and intermediate goods used to produce export goods. Some import taxes, such as the surcharges, were not included in this benefit. Fourth, the drawback system was established.

As was stated at the beginning of this section, the dynamism of the integration process during the 1972-1982 decade slowed down even more due not only to the limits imposed by the smallness of the market, but only to the regional and international conditions. In 1978, the latter deteriorated for several reasons. First, Costa Rica faced the second oil shock and the coffee boom ended. Second, there was a world recession that affected the exports demand. Third, the international interest rates sharply rose at a moment when Costa Rica and most Latin American countries had important external debts in short term and variable interest rate conditions. These external shocks made explode the crisis in an economy characterized by many distortions including the ones created by the import substitution strategy.

D 1983-1994

1 Policy instruments

At the beginning of this period, several policy instruments were established or redefined in order to create an impulse to exports of non traditional goods to non traditional markets. At that time, an important choice was made. The country decided for an "export promotion strategy" instead of a "structural adjustment process". The export promotion strategy focuses on the creation of incentives (protectionism) to the non traditional exports sector as a way to compensate for the anti-export bias. The structural adjustment process tries to achieve an adequate operation of the markets, both goods and services, and factors of production markets. It tries to eliminate, not to compensate, the existing distortions.

In that moment, that was probably the only choice. The industrial sector had already become a strong interest group that would successfully oppose any dismantling of the

protectionism, even more in spite of the declining conditions of the CACM. The absence of any trade liberalization measure, then, left the export promotion strategy as the only way to stimulate non traditional exports.

This means that two protectionist schemes were to coexist: protectionism for domestic production and protectionism for export market production. Until 1986, not only did the existing industrial sector's incentives prevail, but others were created such as the import deposits which have a financial cost, a 1 percent import tax under Law No. 6966, and the import surcharges which were imposed since 1976. The import deposits were eliminated in 1992 and the import surcharges reduced since 1986 and later on eliminated.

Simultaneous to the stabilization program in 1983, efforts were made to try to put in place a development strategy based on the growth of non traditional exports. In August 1983, for instance, taxes on non traditional exports were eliminated.

Export contract The initial signal, however, was the creation of the Export Contract, included in the *Ley para el Equilibrio Financiero del Sector Publico*, enacted in 1984. The Export Contract was established as a 12 years benefit for those exporting firms with at least a 35 percent of domestic value added in their export products.³ First, the CIEX was eliminated, but the CAT was maintained with the possibility of being even a higher subsidy (from 15 to 30 percent according to the level of domestic value added level). On practice, however, the higher subsidy has not been granted to some firms. The CAT is a freely negotiable document which earns no interest. The beneficiary can use it at the end of the maturity period or discount it in the stock exchange market. The maturity period has changed creating a varying level of subsidy. Second, free trade for raw materials, intermediate and capital goods was granted, including the exemption from import surcharges, if the goods are to be used in the production of non traditional exports. Third, the Export Contract included a 100 percent income tax exemption on the profits obtained in non traditional exports. Fourth, there were other benefits such as accelerated depreciation which were less important.

The Free Zone Law was enacted in 1981 and later reformed in 1984 and 1985. The Drawback system, created since 1972, was established in the same law that created the Export Contract in 1984, and is the scheme to which most "maquila" firms are adhered.

Exchange rate policy In 1984, the Central Bank started to adjust the exchange rate according to the domestic and international inflation rates. Before 1981, the colon was overvalued and, consequently, the export sector was punished. During the 1981-1982 period, the sharp devaluation even undervalued the colon. Since the exchange rate regimes unification in 1984, the exchange rate has been continually adjusted using a crawling peg system, leaving the colon sometimes overvalued and sometimes undervalued, depending on the base year used (Table 4). The Central Bank has mainly, but not exclusively, used the purchasing power parity (PPP) to adjust the exchange rate. In 1992, the Central Bank liberalized the exchange rate market. Since then, the exchange rate policy is very similar to the previous one in the sense that the Central Bank intervenes in the market to achieve the desired exchange rate, again mainly guided by the PPP.

3 Although it was created in January 1984, the Export Contract started operating in September 1985 (Cespedes, et al. 1986).

Different calculations throw different results but, in general, it can be said that after 1984, the real exchange rate increased until 1988 but still maintaining an overvalued colon in some years. After an appreciation of the colon in 1989, the real exchange rate has again increased to place itself close to the PPP level. In general, there has been a trend to depreciate the exchange rate during the 1984-1994 period. Of course it is important to insist that PPP is not necessarily the optimal guide to a long term equilibrium exchange rate. Instead, other fundamental factors have to be taken in account (see Edwards, 1990).

Trade liberalization Until 1986, no trade liberalization attempt was done. It was in 1986 when, as a part of the Structural Adjustment Program I, the tariff reform was undertaken and the elimination of the industrial contracts took place, although it was partially substituted for a national incentive scheme for the industrial sector. As a result, there was a simplification of the tariff regime although the structure of protection remained (high tariffs for consumer goods regionally produced and low tariffs for raw materials, intermediate and capital goods not regionally produced). There was not a generalized reduction, however, in the level of nominal tariffs neither an important reduction in the effective protection given the existence of "water" in the tariffs of many activities (Monge, 1986). In 1985, the anti-export bias was still substantial for many activities and remained after the 1986 reform (Monge, 1986).

The liberalization program established a schedule to reduce tariffs to a 5-40 percent range at the end of 1990. In 1989, when almost a 70 percent of the program was in place, the results were the following (Corrales y Monge, 1990): (a) reduction in the dispersion of the effective protection, (b) reduction in the number of activities suffering an anti-export bias (effective protection to the production for the domestic market compared to that for third markets) but there was still near half of them in that condition and, (c) reduction in the number of export activities suffering from negative protection compared to the world market competitors, but there was still a 13 percent of them in that condition.

Finally, in 1993 a further reduction in tariffs took place that left them in a maximum level of 20 percent for final goods.

Export incentives, although important to reduce the anti-export bias in the absence of total elimination of the domestic market's protection, have created a huge fiscal burden. The CATs increased from 1.8 percent of the Central Government's total expenditures in 1984 to 6.1 percent in 1990 (Table 5). In this last year, the Government agreed with the private sector a reduction in the CATs and the elimination of the other incentives included in the Export Contract. The benefits for some exporters will remain until 1999.

Credit lines Exporters have had access to special credit lines through funds made available by the Central Bank to the commercial banks, to finance, both, working capital and investment expenditures. Specifically, there are FOPEX (operating since 1983), for working capital, FODEIN, for investment projects and AID credit lines, also for investment projects. These programs are specifically directed to non traditional export firms. FODEIN existed since the late seventies, but was then focused on import substitution industries. Since 1984, it changed its goal to the new developing sector. Most of the time, the interest rates on these loans have been lower than the ones prevailing for regular credit lines. The weight of this benefit, however, has not been important relative to the export value (Monge y Corrales, 1988).

2 United States Trade Policies and Agreements

The United States has played important roles in, both, foreign aid and trade policies. The first has been the main policy toward the developing countries, while the latter has focused on the United States foreign policy with other industrialized countries and domestic economic interests (Krueger, 1993). Until the seventies, the US promoted an open multilateral trading system. In the eighties, however, trade liberalization slowed down and even reversed. Many factors converged to create this new attitude. It is important to point out, for instance, that Americans started to criticize subsidies to developing countries' domestic industries and their effect on the strong increase in manufactured imports in the US. Americans were, then, demanding fair trade more than free trade (Krueger, 1993).

Since the seventies, under a GATT provision that allows special treatment for developing countries' exports, the US introduced trade policies in favor of those. Specifically, in 1976, the Generalized System of Preferences (GSP) program was introduced. This program, however, had quantitative and eligibility restrictions which some analysts view as preventing the GSP from having its intended effects on the exports of developing countries to the US (Krueger, 1993). Moreover, the US has used the GSP eligibility as a bargaining tool, threatening to revoke it unless trade liberalization was met. The 807 Program or Harmonized Tariff Schedules does represent an important tool for developing countries. It allows import duties to be paid only on the value added in assembly in the case of commodities assembled abroad from US parts and components and then re-exported to the US.

In January 1984, the US introduced the Caribbean Basin Initiative (CBI) which gives a duty free status to export products from beneficiary countries during a 12 year period. Several products were excluded, such as, textile and apparel imports, canned tuna, petroleum and byproducts, leather goods and footwear. Sugar imports would also receive duty free status but only to the limits imposed by the quota. To be eligible, the product must be directly imported from a beneficiary country, have at least 35 percent value added in one or more beneficiary countries (although 15 from those 35 points can include US components) be "substantially" transformed into new products whenever they have foreign components. Compared to the GSP program, the CBI shows some advantages. First, the CBI includes more products subject to duty free treatment (3,800 compared to 2,200). Second, the 35 percent value added requirement can be satisfied in any beneficiary country. Third, 15 of the 35 points can be from US imports. None of these two last criteria are valid for the GSP. Moreover, the safeguards in CBI for US industries are less restrictive than those under the GSP. In summary, CBI appeared to be a good opportunity for new exports, particularly "maquila" in the short term. However, more than 50 percent of the Costa Rican export products to the US are excluded from the CBI benefits (Monge González y Gonzalez Vega, 1994). Moreover, 21 percent of the Costa Rican exports to the US included under the CBI are subject to non-tariff barriers.

In 1990, the US Government announced the Enterprise for the Americas Initiative, which had an important debt relief component. Concerning the trade policy actions, the US offered a more opened trade to the Latin American countries. According to this initiative, free trade agreements between the US and these countries would be part of the actions. This

policy is consistent with the recent shift of the US support from multilateral trade towards bilateral and regional trading arrangements (with Israel in 1985, with Canada in 1988 and NAFTA in 199_)

Costa Rica has been doing efforts to gain access to world markets. In 1990, the country ratified its entrance to the GATT and in 1994 signed a bilateral trade agreement with Mexico. Under GATT negotiations, however, some agricultural products shifted from non tariff barriers to high tariff equivalent barriers.

3 Results

Non traditional export sales It is very clear the transformation that Costa Rica has achieved in the last decade. In the early eighties (1980-1983), non traditional exports (exports of non traditional products to non traditional markets) represented approximately a 15-18 percent of total exports. In the next years, the new export sector started growing (non traditional exports doubled from 1984 to 1987) and by 1987 it already represented around a 35 percent. After that year, it has steadily represented between 40 and 49 percent of total exports (Table 7).

The export incentives and the exchange rate policy have played a crucial role in this performance. Recall that in 1985 the export contract started to operate and in 1984 the exchange rate started to depreciate. It is precisely on those years when the non traditional exports start to show dynamism. Although the CAT and the import duty exemptions were already in place since 1972, it is also true that the export contract gave additional benefits (higher percentage of CAT, exemption on more import taxes and 100 percent income tax exemption on export sales).

As is going to be discussed later, although the export incentives have disadvantages vis a vis a trade liberalization, in the early eighties they were the only feasible alternative and in the short term they played a crucial role in the growth of the non traditional exports sector.

Performance by sector The participation of the industrial sector in this performance has been important. Before 1985, for instance, industrial and agricultural non traditional exports had similar shares within the total non traditional exports (in some years, the industrial exports even had a lower share than agricultural ones) (Table 7). In the next years, however, it is clear that the former started to grow at a faster rate (Table 8). By 1992, the industrial sector (including the "maquila" industry) contributed with the 65 percent of non traditional exports (60 percent excluding "maquila" industry) and the agricultural sector with the remaining 35 percent. Even excluding the "maquila" industry, a similar performance is observed.

Maquila and free zone exports The export sales generated by the "maquila" industry increased substantially during the eighties. In the 1983-1986 period, "maquila" had already started to increase, probably because of the CBI and the more adequate exchange rate policy. In that period, exports from the "maquila" industry increased from a 1-2 million dollars in 1980-1982 to 34 million dollars in 1986 (Table 9). In the next years, further increases took place and by 1990, these exports amounted to 87 million dollars (13 percent of non traditional exports).

Employment in the tradable sectors According to Céspedes and Jimenez (1994), the

non traditional export sector created 23,000 jobs during the 1987-1993 period, although it maintained its relative share in the employment level. This assertion is done by the authors, not without warning the reader about the methodological limitations (see Cespedes and Jimenez, 1994, pp 94-96). The import substitution sector kept a similar absolute level of jobs and reduced its share within the employment level. However, this is the result of the creation of jobs in the industrial import substitution sector and the reduction of jobs in the agricultural import substitution sector (basic grains). The jobs in the traditional export sector fell by 2,000 and those in the non-tradable sector increased by 116,000, some of which may be related to the tradable sectors. Some of the most important findings of this research were

(a) The incomes in the non traditional export sector are lower than the average in the private sector, both in absolute and average terms (but higher than those in the traditional export sector). This may be affected by the fact that the youngest people are the ones mainly entering this sector, which usually have lower incomes than the average of those already employed. However, during the 1987-1993 period, the incomes of those employed in the export sector relative to the average income of those employed in the private sector showed an upward trend (except in 1990 and 1993).

(b) The youngest people (between 15 and 19 years) that entered the labor market, did it mainly to the non traditional export sector. Moreover, their salaries in that sector increased compared to the average income of the young people in the private sector.

(c) The incomes of those employed in the import substitution sector suffered a decrease during the 1987-1991 period and increased only in 1992 and 1993.

(d) Women strongly incorporated to the labor market during the 1987-1992 period, especially in the rural areas and in the three sectors (non traditional exports, import substitution and non tradable sectors). Moreover, their real income increased more than men's.

(e) In general, young people and women have found jobs mainly in the non traditional export sector, which helped to reduce unemployment and under-employment.

III AID PROJECTS

Two stages of AID projects can be distinguished in the trade policies and institutions sector. First, as the Alliance for Progress was announced, the US channeled support to the Central American countries for their integration process. Moreover, a conditionality for the Alliance for Progress was precisely the participation of each country in this process. Second, after the early eighties economic crisis in Costa Rica, USAID had a major role in the support to the efforts of the private sector to develop non traditional exports. This was a stage of massive inflows of foreign assistance, based to a great extent on the Kissinger Commission Report. Besides other important political and social goals, the Kissinger Commission Report stated as one of its purposes the diversification of production and exports for domestic and foreign markets. A great importance was placed on the need to take adequate economic policies in order to assure the effectiveness of foreign aid.

As shown on Table 10, a substantial amount of funds were channeled through CINDE and through financial intermediaries, namely BANEX, Private Investment Corporation (PIC) and COFISA. Some other aid was granted to CENPRO and to the *Ministerio de Comercio*

Exterior (COMEX, former MINEX)

A **USAID support during the industrialization process**

Conception and purpose The US Government was opposed to any initiative that would contradict free trade and free enterprise. Thus, before the late fifties, the US Government had an indifferent attitude towards the ideas that the ECLA had concerning the economic integration of Central America. It was in the late fifties, however, when the political context (the Cuban revolution) created an interest of the US Government in the Central American area. In some way, the political motivation led the US Government to accept the integrationist ideas, but under certain conditions (free trade in all commodities, no integration industries, lower protectionism from non members than the initial proposal established). It was under the Alliance for Progress, then, that the US Government established the economic integration as a conditionality for the Central American countries to receive the aid.

Some of the main goals of the Alliance for Progress for the sixties were to reduce the dependence on the export of a few number of primary goods and the imports of capital goods, to accelerate the process of industrialization specially in the capital goods sector, to strengthen existent agreements on economic integration, to develop programs to prevent the effects of excessive fluctuations in the foreign exchange earnings and to adopt the necessary measures to facilitate the access of Latin American exports to international markets (The Charter of Punta del Este, 1961).

Programs There is practically no documentation relating the specific USAID projects launched under the umbrella of the Alliance for Progress. It is clear, however, that to receive any aid there was a conditionality related to the reorientation of the policies and institutions towards a strategy that was based on economic integration and industrialization. However, AID Washington had very little specific interest in Costa Rica at that time (Weissman). It was considered that Costa Rica had a satisfactory economic development and political situation. Thus, projects were marginal for Costa Rica.

The assistance under the Alliance for Progress was primarily administered by USAID, but there were also projects of the Export-Import Bank, IDB and Food for Peace (Mann, 1964). In 1962, USAID established a regional office (ROCAP) in order to give support to the economic integration process at a regional level. The US Government supported the creation of the Central American Bank for Economic Integration (BCIE). By 1964, some of the projects directly related to the industrial sector were a 10 million dollars loan to the BCIE, which would be reloaned to Central American new industries and a 5 million dollars loan (at 2 percent interest rate) to help establish a private development bank to promote industrial growth (COFISA was created under this project) (Mc Camant, 1968). In general, there was a strong emphasis in the financing of industrial production which was propitious because of the increased demand in the sixties, specially to finance capital goods imports. In the late fifties and early sixties it became even more important because of the scarcity of foreign exchange. At that time, however, the World Bank also granted loans to Costa Rica.

The US Government's assistance included also support to the Central American Institute for Technology and Industry (ICAITI) and the *Instituto Centroamericano de*

Administración Pública (ICAP) Assistance was also provided for consultants to advise individual plants, to organize seminars and training courses on problems of management and to educate top management in problems of economic integration Support was also given to promote foreign investment (Cohen Orantes, 1972)

The Central American integration process would have probably occurred without any assistance or conditionality from the US However, US's support under the Alliance for Progress, together with ECLA's ideological pressure, probably accelerated the process There seems to be little doubt that the ECLA and its executive secretary, Raúl Prebisch, played a very important role in promoting the economic integration in the developing countries, however

Impact As was explained in Section II, the industrialization process was based on an import substitution strategy In the first years, the process led to a significant increase in industrial production and exports to the CACM In the later years, however, the process decelerated In the long run, the strategy was incorrect because the industrialization process was based mainly on the excessive and non-temporary protectionism rather than on the enlargement of the market, both, because the size of the market was insufficient and because free trade in all commodities was not achieved

Moreover, exports to third markets were insignificant By 1972, only a 7 percent of total exports were non traditional In the late seventies, however, some positive but insufficient results appeared in this area Non traditional exports (mainly in the industrial sector) represented between 12 and 15 percent of total exports during the second half of the seventies (Céspedes, et al , 1986 : 178)

After ten years of CACM, it was clear that the production diversification process of the Central American countries was insufficient and that the strategy had created a greater rigidity in the imports structure and low value added industries, which were not within the expected results of the Alliance for Progress These results, however, were inherent to the incentives created during this period

The Subcommittee that evaluated the advances of the Alliance for Progress and made recommendations based on those evaluations, also felt the need to enhance diversification of agricultural production and to define a regional agricultural policy allowing free movement of agricultural products This was not achieved during the import substitution strategy period, which is not surprising given the bias in the relative prices towards industrial production In other words, some of the expected results were never to be achieved under an import substitution strategy that created a bias against exports, agriculture and inputs and capital goods import substitution industries

The reluctance of the countries to act in a regional basis (national concerns prevailed above regional concerns) shows, however, that, although USAID's support corresponded to the underlying ideas of the time and to the policies Costa Rica was implementing as part of the economic integration process, its regional approach was wrong at that time and probably affected negatively the projects' impact This was reflected in several areas agriculture, financing, technology and training programs Many of the projects supported by USAID and other organizations required contributions from the Central American countries In many instances, they were reluctant or slow to fulfill their compromise (ICAITI, ICAP, e g)

B CINDE

Conception and approach. In the early eighties, the need to take out the private sector from the crisis created an important momentum to define a new development strategy. It was this momentum what brought together the private sector, public sector and USAID. A particularly important role was played by Daniel Chaj in that moment, who had several meetings with Costa Ricans to discuss the country's problems and possible solutions. Together with private sector representatives, they designed a private sector EIPO that had as its most important purpose the promotion of Costa Rica's investment and exports. It was created as an association with its members and directors being all private Costa Rican citizens chosen for their prominence in their fields (academic, entrepreneurs and professionals) (Lanza, 1994) and from different political parties.

CINDE was created as a private institution for several reasons. Public entities were considered totally unable to effectively achieve the intended purposes. In general, US Government policies for Latin America were emphasizing a private sector approach to problem solving (Lanza, 1994). Particularly, the main option was to give CENPRO (created in 1968 as a public entity in charge of the export and investment promotion activities) the responsibilities that were granted to CINDE. CENPRO was an inadequate option for many reasons. First, the employees were subject to civil service regulations, which reduces flexibility. Second, it was highly influenced by political and bureaucratic criteria. Third, the employees had not the capacity (human and technical) to respond to the needs of such an organization. Fourth, as a public institution, it was subject to all kinds of constraints and rigidities in the administrative processes.

Since its creation and until 1990, when FUNDEX was created, CINDE was funded either directly or indirectly through the ESF generated local currency. The funds that were directly provided to CINDE corresponded to specific projects by USAID. Between October 1982 and December 1992, CINDE received 63 million US dollars directly or indirectly from USAID (Lanza, 1994).

Main programs At the beginning, there were three main programs. First, the Program with Voluntary Organizations, which gave support at a firm level through different organizations such as OPVs or cooperatives (basically training activities were supported). Second, the Program for Promotion, Investments and Exports (PIE), which gave support to the solution of the country's economic problems at a macro level through seminars, research studies, etc. Third, the Program for Communication and Public Awareness, which focused on the promotion of an improved image of Costa Rica at an external level. Important efforts were also made to influence public opinion on the need to favor private exports and investment. In the first two years (1983 and 1984), CINDE was trying to define its role and, thus, there was some dispersion in the efforts. In spite of the critical national situation, however, CINDE's activities had an important impact in creating a new "attitude".

In 1985, CINDE became more like a promoter organization (Lanza, 1994). As a promoter, more emphasis was placed on firm level technical assistance to a limited number of producers in specific sectors in both production and marketing areas. Attraction of new investment through overseas promotion offices was also an important part of this approach. Since there was not a substantial exportable volume to promote, CINDE started to operate a

new program which identified and contacted foreign firms that might be interested in investing in Costa Rica. The cost of such an organization is, of course, high and needs large amounts of funds. This was clearly the case of CINDE during the 1985-1990 period, when USAID channeled substantial aid.

The redefined CINDE created three main programs. First, the Foreign Investment Program (PIE) and the Training Program (PROCAP) and, later, the Private Agricultural and Agroindustrial Council (CAAP). The OPV program was divested from CINDE and passed to a separate institution, ACORDE and the Program for Communication and Public Awareness was reduced and changed to a unit of research and dialogue (Lanza, 1994).

By 1990, when CINDE's funding was clearly declining, the three mentioned programs were reduced in terms of both human and financial resources, but remained as divisions within CINDE (Lanza, 1994). In 1988, CINDE also started to promote tourism.

CINDE's current programs are: (a) the economic environment program which organizes seminars, workshops and such, promotes and executes studies oriented to understand the economic environment and elaborates opinion papers and publications, (b) the country international marketing program which promotes foreign investment in Costa Rica (former PIE), (c) the export marketing program which promotes exportable projects, (d) the intelligence system which provides data bases and trade related studies, (e) the agricultural services program which provides quality certification services and has a laboratory that provides specialized services for the agricultural and agroindustrial sectors, (f) the supply of university texts, and (g) the training program (former PROCAP).

CINDE has been active in supporting several initiatives aimed at supporting the export environment of the country and making publicity campaigns to convince the public of the benefits from an export-oriented economy, as well as of those from other economic reforms. It has to be pointed out that some members of the board of directors of CINDE were also important political leaders, which allowed an effective coordination with the different administrations in terms of the general policies. CINDE cooperated closely with the Government in helping to formulate and influence political decisions.

B 1 PIE

This functional program within CINDE was created since 1984 but restructured since late 1985. During the 1986-1989 period, it was probably the most important one in terms of funds. Illustratively, PIE's percentage share of the total budget for all non-Central CINDE programs was 56 percent in the 1986-1987 period.

Conception and purpose The Investment Promotion Program (PIE) had as its main purpose to increase direct foreign investment in Costa Rica, in order to increase employment and foreign exchange earnings. The sub-goals include: (a) selection of appropriate product sectors for foreign investment, (b) assisting in the regional development of the country by promoting all regions where sustained foreign investment can take place, and (c) assisting in the improvement of the investment climate of the country.

Initially, the PIE planned to promote foreign investment in stages. The first stage would consist of light assembly operations, particularly apparel industries. The second stage would include higher technology and skill industries such as electronics, metal mechanics and health care products (Bell, 1988). PIE established an incentive system for the overseas

officers that encouraged them to direct their efforts towards these higher technology and skill sectors which are considered to be of higher importance for the long term growth of the economy

During the 1984-1985 period, PIE had assigned a wider range of goals, which included export promotion, lobbying and studies

Approach and activities PIE developed a methodology based on the Irish model. As a part of this approach, offices were established overseas. PIE's strategy was based on a target approach, by identifying companies in the United States and Europe (later in Asia) in those economic sectors where Costa Rica had capacity to compete. After a screening process of the companies in those sectors, the overseas office visited the companies to promote Costa Rica as an attractive place to locate their offshore plant. In the case of those investors which were interested in visiting Costa Rica, the PIE staff in Costa Rica developed an itinerary which included contacts with similar companies already established in Costa Rica, visits to free zones, to financial institutions, to government institutions such as CENPRO, and such. The PIE staff in Costa Rica also provide them with the necessary information regarding domestic costs, joint venture partners, etc. The overseas office had the responsibility of following up on the visit.

It is important to point out that this methodology was put in place since late 1985. Before this year (1984-1985), a non-targeted, non-personal approach was developed. As was stated before, the PIE was initially given the mandate to energize the export sector and, specifically, to attract foreign and domestic investment that would increase non traditional exports. Mainly, CINDE's staff participated at conferences, seminars and trade fairs in which brochures were distributed and contacts were made. Marketing and investment feasibility studies were also conducted during that period. This approach seemed to be inadequate (few concrete results were obtained), which explains the redefinition of the methodology.

PIE also was very active in promoting the free zones development, including the regional ones. They participated in the reforms to the free zone legislation in 1984 and 1985.

Since late eighties and early nineties, USAID funding to CINDE started to reduce. In 1990, the PIE program was renamed as the Marketing Division. In 1992 an important event occurred that affected even more this division's activities. In fact, the US Government set a guideline in order to forbid any aid that would support foreign investment attraction, based on the argument that this was a way of taking away jobs from the Americans with public funds. This greatly changed CINDE's focus. Some foreign investment attraction activity still takes place in CINDE, but in a lower scale (only one office in New York remains) and with CINDE's "own funds".

Results An evaluation performed in 1990 by Price-Waterhouse, in which the influence of CINDE in persuading foreign investors to select Costa Rica as an offshore location was tried to be determined, concluded that "CINDE's activities had influenced positively nearly 80 percent of their claimed foreign investment between 1986 and 1990 and 61.3 percent of the 566 million dollars of direct foreign investment flowing into Costa Rica during those years. More revealing and significant, perhaps, was that in 42 percent of the cases the decision to invest offshore had not even been made when CINDE approached the

company to promote Costa Rica's advantage as an offshore manufacturing location" (Lanza, 1994)

In the evaluation for the 1986-1987 period (Bell, 1988), PIE was characterized as a low-cost per job in comparison with other programs in the region and even with those in the Far East. In the same period, PIE was attributed with a 60 percent of the total number of firms that set up operations in free zones, 40 percent of those with approved temporary admissions (drawback scheme) and a little less than 10 percent of those with export contracts signed.

In the 1990 evaluation (Corrales, et al, 1990), from a sample which represented the 29 percent of the firms universe and assuming an 80 percent attribution to PIE, it was obtained that the PIE generated an internal return rate of 15.4 percent which, compared to a 12 percent opportunity cost (used by the World Bank), made the program profitable. If a 16 percent opportunity cost is used, the discounted present value of PIE would be negative.

By 1993, PIE attributed itself 417 million dollars of attracted investment in the 1986-1993 period (Lanza, 1994).

Impact and lessons

PIE's educational and lobbying efforts created an environment conducive to non traditional exports development. The initial educational effort made by PIE (1984-1985 period) seemed to be important in generating an awareness within the public opinion about the need to promote non traditional exports. Concerning the lobbying activities performed in those first years, although considering how difficult it is to determine the exact contribution, CINDE played an important role in the passage of several export promotion policies such as new free zone law, export contract and drawback system. More is to be said about this role later in this paper.

PIE was very successful in its foreign investment promotion activities. According to most of the people interviewed, PIE was the most successful program within CINDE and the one generating greater impact in terms of employment and foreign exchange creation. At that time, it is clear that no other organization (public or private) was able to assume the mandate that was given to PIE and this makes USAID's support a determinant of the achievements in this area.

Three conditions were determinant in the success of PIE. First, the political and economic conditions in Costa Rica. This includes the well known political stability of the country, its well educated and more productive labor force as compared to other countries in the region, and also the incentives schemes offered to investors. At that time, many of the countries in the Caribbean Basin had incentive schemes in place in order to attract foreign investment, so that the creation of some of these incentives in Costa Rica was just placing the country in a competitive condition in relation with those other countries. Second, the large volume of funding from AID during the first years of the program was crucial. This allowed PIE to hire staff with high salaries and establish overseas offices. Third, the targeted strategy developed to promote foreign investment, its highly qualified staff and its responsiveness to the investors' needs in terms of information and help provided. It seems to have been of importance the well defined objectives of the program. Before the 1985 restructuring, too many activity areas were assigned to PIE and this led to a lack of focus and a dispersion in the efforts. None of these were present in the 1986-1990 period.

Three factors darkened PIE's impact First, the program's concern on creating jobs and foreign exchange led to a high concentration on the promotion of low technology and skill industries, mainly apparel and textile sectors. Even people within CINDE regret that not much progress was done in promoting other industries with long term benefits for the country such as greater value added, higher technology and skill, greater backward linkages with the national economy and more permanency (sustainability of the approach).

Second, in 1992 the US Government started to forbid any support that would promote foreign investment with US funds, arguing that it takes away jobs from the Americans. Although by that time the program had already less funds than in its initial phase, this new US Government's policy meant a further reduction. Third, PIE also lacked an adequate coordination with CENPRO and with other programs within CINDE, particularly with CAAP. This implied some duplicity and waste of resources. For instance, instead of promoting foreign investment at one overseas office, both, in the industrial and agricultural sector, two offices were sometimes placed at the same country (one for each sector). Concerning CENPRO's and PIE's activities, it was not until later during CINDE's existence that a division of labor was established to minimize duplicity (Lanza, 1994). USAID had no confidence in CENPRO and it was not until Carlos Torres (former CINDE staff member) that some of this coordination came along. This does not mean that the Costa Rican Government did not support and did not approve PIE's activities. On the contrary, the Government seemed to be aware of the importance of foreign investment promotion activities, specially in spite of the need to compete with other countries in this field.

Five lessons can be drawn from PIE's experience First, a long term strategy needs to be in place when foreign investment is promoted and short term actions must be part of that long term strategy. Second, coordination with other programs and institutions is necessary. Third, an effective methodology must be in place within a foreign investment promotion program. Fourth, political and economic conditions within the country are necessary for this type of programs to be effective. Fifth, adequate funding and staff are crucial, also, in foreign investment promotion programs.

B 2 CAAP

Conception and purposes The agricultural private sector had an important role in the conception of this program, mainly as it felt that CINDE had until then an emphasis in the promotion of the industrial export sector. In any event, it is very important to point out that the Private Agribusiness and Agroindustrial Council (CAAP) was one of the implementing institutions of the overall non traditional agricultural export strategy (NTAE) followed by Costa Rica and supported by USAID through several projects (Agricultural Services and Union Development Project, Non traditional Agricultural Export Technical Support Project (NETS), Private Sector Productivity Project (BANEX), Private Investment Corporation (PIC), COFISA, Non traditional Agricultural Export Support Project (PROEXAG) and Export Industry Technology Support Project (EXITOS)). In that sense, CAAP activities must be seen as part of a more general effort.

The NTAE strategy was adopted in view of the comparative advantage of Costa Rica in labor intensive sectors and the employment it would create in the rural zones. The

development of non traditional agricultural exports was seen, also, as a means to benefit the rural economy as a whole

At that time, there was a feeling that the Government of Costa Rica was not able to respond to the needs for developing non traditional agricultural exports and investments CAAP was then created and financed by some of the projects already mentioned, mainly NETS, PROEXAG and EXITOS, as well as by ESF counterpart funds NETS was the most important funding source, with 3.5 million dollars channeled directly to CAAP and 8.4 million dollars from ESF local currency counterpart

CAAP was established in August, 1985 with three main goals (Fiester and Redenius, 1988) First, to conduct policy dialogue between the private and public sectors as they relate to agriculture Second, to promote the export marketing of non traditional crops and third, to promote investment in non traditional crop exports

Approach and activities CAAP developed two main areas of activities First, policy dialogue and lobbying in relation to agricultural issues Second, constraint identification and technical support to a group of selected agricultural crops

Concerning the first area of activities, a strong linkage to the National Chamber of Agriculture was established This Chamber made most of the lobbying efforts CINDE funded the establishment of a data bank within the Chamber To a great extent, this lobbying action took place after identifying problems that constrained the competitiveness or investment climate of a group of products Examples of these are tax on exports, transport problems, cumbersome export documentation procedures, importing country regulations, credit availability, etc (Fiester and Redenius, 1988) Specific lobbying efforts were done in the air transport issue and the EARTH school, among others

CAAP developed an important relationship with the University of Costa Rica, the National Chamber of Agriculture, the National Coffee Institute (ICAFFE), PINDECO, the National Chamber of Forest and CATIE In some cases, these organizations have been a funding party for technical studies

The other main area of activities was the product selection, constraint identification and technical assistance Although the Ministry of Agriculture would have been a possible option for fulfilling these activities, it is also true that national technicians had little or no experience on non traditional agricultural crops By 1987, CAAP selected an initial list of twelve commodities (from which six were expected to survive as viable export commodities) for in-depth studies to identify the constraints to their development (the products were flowers, ornamental plants, strawberries, mangoes, cocoa, macadamia, black pepper, asparagus, melons, root and tuber crops, papaya and pineapples) The selection was done on the basis of both their production and market potential By 1994, activities had been carried out for the development of other products, namely, plantain, blackberries, vegetables, industrial tomato, hot pepper and onion Only four technical assistance programs survived, those on ornamental plants, asparagus, macadamia and blackberries

Two types of constraints were identified based on the required market conditions and the product's competitiveness First, the ones that affected a group of products (general constraints) which were addressed by lobbying efforts as was stated before Second, the ones that affected a particular commodity (specific constraints) These were usually addressed through research or advice from outside consultants (Fiester and Redenius, 1988)

One of the criticisms to this approach is that there is no criteria for deciding which constraint will be the most effective if corrected (Fiester and Redenius, 1988)

In general, CAAP activities within the selected products were crop research studies, the formation of product steering committees, specific lobbying efforts, technical assistance and specific product research. Later on, an investment promotion office was opened in Miami. The main focus has been on the technical support to production and marketing of specific crops. As part of PROEXAG, a Central American project directed to non traditional agricultural export promotion, some efforts have been done in disseminating technology and information regarding the use of appropriate pesticides and other chemicals, besides training of producers and instituting testing and control procedures (Swanber, 1994). Under the PROEXAG and EXITOS projects, CAAP was initially the implementing institution. However, later on, the projects changed their focus from this type of organizations to individual firms and industry assistance through activities surrounding the creation of a deal (consummation of the export sales). An important assistance given by these projects was market information, bringing production technologies and providing computerized facilities for market price determination at harvest and sale.

Results Taking as a guide an evaluation of the NETS project in 1994, which is one of the most important sources of funds for CAAP (Agricultural Division later) and one that lasted from 1988 to 1994, it can be said that the project fulfilled its initial goals, i.e., it met and even surpassed the initial goals in terms of hectares assisted, investment, foreign exchange generated by export sales (USAID, 1994).

CAAP faced problems with many of the products it had selected. In this sense, one of NETS project's objectives, "to give a decisive and steady fillip to a series of non traditional exports" did not meet the original expectations (USAID, 1994). Many factors contributed to this unsatisfactory result. Some of the problems faced by the development plans can be attributed to world market conditions, poor control of pests and diseases that affects market access, lack of credit or inadequate credit conditions (USAID, 1994).

Moreover, in some products, the producers had a large economic capacity and did not demand technical assistance (melons, pineapple, chayote and mango). In the case of completely new products where there was no experience, producers (specially the small ones) could not afford too much risk and, thus, were very cautious (black pepper, hot pepper, raspberries, blackberries, vegetables, strawberries, asparagus, industrial tomatoes and onions) (for more details on this classification see USAID, 1994).

CAAP showed effectiveness in its lobbying and policy dialogue efforts. One particular achievement was the increase in the number of cargo flights, the open sky's policy passed by the Congress, the streamlining of the documentation to export perishables and other related issues to the problem of the limited number of LACSA's cargo flights. In general, CAAP was perceived as an effective organization to identify problems that constrained the non traditional agricultural development and to address them through the promotion of pressure groups, bringing many groups together to dialogue and, becoming the most important spokesperson for the non traditional agricultural sector (Fiester and Redenius, 1988).

The foreign investment promotion in non traditional agricultural activities did not show any significant favorable result.

Finally, PROEXAG and EXITOS projects have been evaluated very favorable, although no specific reference is made to the case of Costa Rica. Mainly, these projects are attributed with achievements in promoting the use of sophisticated technologies, use of appropriate chemicals, creating an improved environment for investments and providing market information. This last achievement has been insufficient, however, in terms of the need to add value to that information (Swanberg, 1994).

Impact and lessons

The performance of non traditional agricultural exports is satisfactory Looking at the figures on non traditional exports, it is clear that agricultural products have played an important role. By 1992, they represented around a 17 percent of total exports. By 1993, four commodities were particularly significant within the agricultural non traditional exports: ornamental plants, foliage, leafs and plant parts, pineapple and melons, all of them representing together more than half of those exports. Both, ornamental plants and pineapples export values are similar to those in 1988, but melons and foliage, leafs and plant parts have clearly shown an important upward trend.

There are other commodities which are also important, such as flowers, chayotes, yucca, root and tuber crops, "raicilla o ipecacuana". Their behavior during the 1988-1994 period is dissimilar, some have stagnated and some have shown increasing trends in their export value.

Of the mentioned products, four of them were in the selected groups by CAAP (melons, pineapple, flowers and ornamental plants), although it cannot be said that CAAP can attribute to its activities, and in what magnitude, the favorable behavior of such crops. As said before, pineapple and ornamental plants had a significant export value already by 1988, although they showed an important increase during the 1988-1992 period. Melon is probably the most astonishing commodity in terms of its development. From exporting 1.5 million dollars in 1988, this sector exported 28.4 million dollars in 1993.

Micro level activities within the projects do not seem to have had an important impact on the non traditional agricultural sector Concerning the technical assistance support that CAAP and other non traditional agricultural projects gave, the attribution issue makes any judgement doubtful. However, some evaluations (NETS, particularly) consider that the results were behind the expectations in terms of the sustainability of the crops' development.

The root and tuber crops are the only ones where three conditions are fulfilled: exports represent a relatively important proportion from non traditional agricultural exports, they were supported by CAAP and they have more participation of small producers (where CAAP's support seems to be justified). Although the particular impact on these activities may be large, the impact of CAAP seems modest in terms of the whole non traditional agricultural sector, at least in the micro level. CAAP's activities, however, exposed producers to new crops, to ways of analyzing and solving problems which may help them in the future.

Although problems relating the production, market or competitiveness of the crops may explain to a great extent this unsatisfactory result, the lack of sustainability may also be part of the explanation. The initial purpose was to transfer the programs to the producers associations. However, there was either not a well-established transfer program or the

producers are not willing to participate with their own funds in this kind of efforts which, in any event, lifts doubts about the value of the services for them

CAAP's projects had an impact in the solution of problems that constrained non traditional agricultural exports, through lobbying and policy dialogue efforts Moreover, it is highly possible that many of these problems would have not been solved as soon as they were, if CAAP's efforts through the Chamber were not made, particularly because the non traditional agricultural export sector was not so important until the late eighties

There is an important flaw to the lobbying efforts there was not a clear definition of the scope and approach Although CAAP played an important role in the solution of problems affecting the non traditional agricultural exporting sector, it is very difficult to determine if there were more important problems than the ones addressed by CAAP and if the solutions were satisfactory in terms of their impact on exports In some cases, moreover, these efforts pursued solutions to problems not related to the major goal of promoting non traditional agricultural exports and, even worse, solutions that were inconsistent with other USAID's programs This is the case of the FODEA Law It is very probable that interest groups priorities prevailed, not always being coincident with those of USAID projects CAAP apparently had an important role in the lobbying of the creation of EARTH The impact of this particular issue must be referred to another sector evaluation

Three main lessons can be drawn First, efforts at a micro level, such as those related to technology or marketing aspects, are justified only on a "market failure" basis (existence of positive externalities) It is, however, so difficult to identify where these externalities exist and to what degree, that a careful evaluation has to take place before any assistance is provided Second, if any effort is to be made, it is clear that any program should work with a certain degree of certainty about the funding (either from donors or from fees generated by the services provided) in order to establish sustainability This is specially important for projects where a long term assistance is needed Moreover, micro level assistance should be co-financed by its beneficiaries This is a lesson that is valid for this and other programs Third, wide-impact activities seem to be more effective in comparison to focused-impact activities Particularly, identification of constraints and their solution, as well as lobbying efforts to pursue those solutions seem to be more effective Support to these activities is justified, however, only in an initial phase when interested groups are not well organized

B 3 PROCAP

Conception and purposes This program had as its main goal to stimulate growth in the production and exporting of non traditional goods and services, through a strengthening of the human resources which are needed for the Costa Rican private sector through a program of selected training activities (Jackson, 1988)

This program was mainly funded by the Training for Private Sector Development (TPSP) Project, which totalled 5 million dollars and a 8 4 million dollars local currency counterpart (ESF funds, financial system, private enterprises and university system)

The project was directed to managers and key administrators working in the non traditional export sector of Costa Rica, teaching staff of Costa Rican universities in order to develop and deliver needed private sector training in selected areas and personnel from private financial institutions and the Central Bank of Costa Rica (EDC, 1991)

Approach and activities The training programs focused on practical information and strategies, "hands-on" and observational learning. The training programs were customized to the needs of managers and professionals in terms not only of training but also of logistical aspects (duration of the training programs, e g). As circumstances and needs changed, the targets were reprogrammed.

Results Concerning the short term training programs in the US, the project reached and exceeded total targets for participants trained, according to EDC (1991)

According to an evaluation based on a sample of companies that participated in these programs (USAID, 1992), 61 percent of the companies attributed an increase in exports to the training program, 47 and 37 percent attributed increase in production and productivity, respectively, 14 of the 25 potential exporters started exporting after the training program, productivity in real terms increased in 36 3 percent of the companies.

Moreover, the companies attributed to the training programs an awareness and concern for improving product quality, and having acquired a more global vision, more business aggressiveness and more self-assurance in negotiation, being these last results not intended by the project. Also, around a 50 percent of the companies said they would be willing to pay an additional proportion of the training cost for the future.

The evaluation showed that the impact was higher on small and medium sized companies, and not as significant on large ones. Also, the program appeared to be more effective for industrial, agroindustrial and tourism sectors, and not so much on the agricultural sector.

An unintended result was that the training programs provided a forum for participants to discuss and look for solutions to problems constraining the export development (EDC, 1991)

Impact and lessons It is very difficult to address the impact of this kind of programs. However, from most interviews it could be infer that, after PIE, this was the most effective program within the 3-program scheme that existed in CINDE during the 1986-1990 period. PROCAP was the first training program for the non traditional export sector established in Costa Rica. Today, however, there are other organizations offering training courses to help solve export problems. In this sense, PROCAP's training acted as a catalyst.

Some lessons can be drawn First, the fact that companies and participants put money

and time influenced results positively. Particularly, there is a higher potential impact on the company once the training is completed and gives the program relative sustainability.

Second, the emphasis placed on understanding the needs, continuously reviewing them, and designing the training programs according to these was a positive factor. The proof is that the companies were willing to pay part of the cost.

C Development credit projects in the non traditional export sector

This section reviews the main projects in this area, namely, the Agricultural and Industrial Reactivation (AIR) implemented by the private banks, the Private Sector Productivity project implemented by BANEX (PSP), the Private Sector Export Credit project implemented by COFISA (PSEC) and the Private Investment Corporation project (PIC).

C 1 AIR

Purpose This project had the purpose of making credit available through private banks for on-lending to private businesses seeking to expand or upgrade their facilities for the production of non traditional exports, and to capitalize the AIR facility in the Central Bank as a permanent source of long term credit. This project had an initial funding of 20 million dollars, but only approximately 8 millions were used.

Conditions The 20 million dollars loan was given to the Central Bank for a 25 years term, 10 years of grace and at a 2 percent rate. The Central Bank had to set up a rediscount window for private financial institutions, lending them funds at market interest rates in US dollars upon request, i.e., without any review of the final borrower.

After three years of the existence of this project, it was extended for two more years and several changes were introduced following a demand study. Triangulation was allowed to circumvent the limit of access to the Central Bank's funds, the interest rate was reduced, other activities qualified for lending (working capital financing, tourism and service projects) and the maximum per loan was increased (Zuñiga, et al, 1991).

Results By 1989, 12 million dollars were deobligated for lack of demand. This responded to a preference for long term funds in colones on the part of borrowers and lenders and to restrictions in the initial design of the project. However, by 1990 (when the project was definitely terminated), the funds were being used more rapidly. Zuñiga, et al (1991) considers that in view of this, the deobligation of the AIR funds was premature.

Some of the main features of this funding were (Zuñiga, et al, 1991) (a) 22 of the total 31 sub-borrowers in the sample were new ventures and the financial institutions, in general, used the funds for project development. (b) Of the 8 million dollars used, 33 percent was to agriculture or agribusiness, 45 percent to industry and 22 percent to tourism. (c) Most of the 31 sub-borrowers were small and medium size companies (nothing is said about what is the criteria to classify by size), mainly because large companies were reluctant to use this credit line.

According to Zuñiga, et al (1991), AIR funding had the following impact: (a) AIR funding was instrumental in creating 2,500 jobs and generating over 20 million dollars in foreign exchange earnings by 1990. (b) The financial institutions in the sample had acquired expertise in long term lending. (c) The project brought about a change in the exporters'.

attitude towards foreign currency obligations

In the interviews conducted for this evaluation, the general opinion was that the AIR funding was not used to a great extent because there was reluctance from sub-borrowers to have foreign exchange obligations. In other cases, because of the limit of access to Central Bank funds

C 2 PIC

Purpose USAID was the main instigator of this project and was part of the needs which were identified in the initial discussions between Chaj and the private sector. The project began in August, 1984

The main goals of this project were to establish a viable private investment corporation, to provide investment packaging services, medium and long term credit, and equity financing to investors for export oriented development. The loan agreement with PIC was for a 21 million dollars amount with a 20 years term and 10 years of grace

PIC had to subscribe an initial capital of 8 million dollars, of which 5 millions were granted by USAID through CINDE. CINDE is, thus, a shareholder but without voice and vote. The private banks contributed with 1.5 million dollars and other private companies with the remaining amount

Results By 1985, PIC was practically broken. Many of the financed projects had completely failed and some were not even attending the interest payments. This occurred as a consequence of inadequate feasibility studies in projects which were chosen by USAID, non viable projects, exchange rate losses and, apparently, on the lack of a capable manager. In 1986, however, USAID gave the project another opportunity under a new management. By 1988, all the 21 million dollars had been used

The new management was concerned to a less extent on USAID guidelines and more on the viability and financial health of PIC. As a consequence, the emphasis was changed towards less risky projects (better collateral, less risky activities, shorter term, well-known people behind the projects, no equity investment)

PIC got also involved in joint ventures. Three underwritings were made with not very favorable results. PIC ended with 100 percent of the capital of one and with 40 percent of other one. It is important to point out that in one of the underwritings, USAID was initially opposed because it was in the production of oranges which would compete with Florida's producers

Four positive comments can be made about PIC in terms of its development banking role. First, in general, the loans showed compliance with the additionality criteria. This means that the loans would probably not have been made by a commercial bank (many start up projects), even had this bank had access to long term funding. Second, there seems to be a diversification of the portfolio among different sectors. Third, PIC has been able to obtain additional long term loans from DEG of Germany and CDC of the United Kingdom. Fourth, PIC introduced new financial instruments and has been a pioneer in some activities. This has created experience for the whole financial system. Fifth, the lending volume has been significant (approximately 80 million dollars in non traditional export projects)

Many factors, however, have contributed to a not totally satisfactory performance

First, the loan agreement with USAID requires PIC to make equity investments with their own capital. The experience in this respect has not been satisfactory, however. Second, the loan agreement with USAID forbids PIC from entering traditional banking activities (working capital financing, wider portfolio in terms of attended sectors, factoring, leasing, and such). This affects PIC's financial performance and the return on the investors' capital vis a vis commercial banks. Since PIC has obtained funds from other donors, it has been able to do some of these commercial bank activities with these funds (although with some conflicts with USAID). Moreover, now that PIC is paying back the loan to AID, there was an interest from the management to transform PIC to a commercial bank. The shareholders from the banking system have been opposed, however. Third, conflict of interests emerged with the shareholders from the banking system, particularly when they started to compete with PIC in the long term lending area. Moreover, PIC has a diffuse ownership structure which may imply unclear objectives. Fourth, by 1987 PIC showed important deficiencies in terms of insufficient project analysis, high cost structure (too large operation and high salaried employees) and low leverage. Progress was made in the next years, however (Porges, et al, 1990).

C 3 BANEX

Purpose BANEX was looking for external financing and as part of these efforts, it proposed this project to USAID. The Private Sector Productivity project (PSP), implemented through BANEX, had as its main goal to establish an integrated program of credit, export management assistance and export oriented banking services for the producer of non traditional exports. The loan agreement was for 10 million dollars and was initiated in 1981 with a 2-3 percent interest rate, with a 20 years term and 10 years of grace. Sub-borrowers loans were granted at a rate tied to LIBOR, however. BANEX had to constitute a guarantee fund for USAID which should represent a 5 percent of the loans.

The loan was to support a credit system for non traditional export activities, a privately owned and operated trading company (BANEX Trading) through which companies could carry out the export related activities (marketing, warehousing, financing, etc), the provision of export oriented banking services and the establishment of BANEX as a viable, private banking institution.

Results The project's main components evolved differently.

(a) BANEX Trading was a total failure, mainly because at that time there was not sufficient exportable volume, only surplus production. Other conditions, as quality and price, were also not competitive. Recall that at the time this project started, manufacturers were largely oriented to the domestic and CACM markets and there was not a favorable environment for non traditional exports development. BANEX Trading, on the other hand, was deficient in identifying whether or not the export products met the necessary conditions. It had also established a costly infrastructure (overseas offices and such) which had no relation with the level of activity.

The joint ventures were also a failure. BANEX participated in three of these projects but they failed because of evaluation errors, inadequate technology and, in general, because they were not viable projects.

(b) In the development of export oriented banking services, BANEX was very successful. In general, the bank has evolved mainly as a commercial institution.

(c) The development lending activities started at a very slow pace, mainly because a low demand for dollar loans. During the first five years, few projects were financed. USAID even allowed BANEX to temporarily finance working capital for non traditional export activities. It took from 1981 to late 1985 to allocate the 10 million dollars. Currently, for instance, it takes one year for the bank to allocate this same amount. BANEX achieved a significant lending volume with this project (50 million dollars). In the first years, there was a high concentration in agricultural projects and, currently, in tourism projects. The additionality and higher than commercial bank risk criteria placed by USAID has been fulfilled (many start up projects have been financed).

Development lending has become an important activity within the bank and one of the most outstanding results is the experience BANEX has developed in this area (project analysis and monitoring capabilities). The portfolio quality is very satisfactory. The main factor of success has been the separation of the two areas (commercial and development) in terms of analysis. This has resulted in specialization and a more experienced staff.

BANEX has been able to attract new foreign credit lines for development from IFC, BCIE and Puerto Rico Fund. The spreads are lower, but costs enable the development lending to be profitable for the bank.

C 4 COFISA

Conception and purpose At the late seventies and early eighties, COFISA was going through difficult financial problems. It had to assume important exchange rate losses due to the fact that its borrowers (mainly manufacturers that borrowed foreign exchange loans to finance capital imports) paid their loans at the fixed official exchange rate, while COFISA had to buy its dollars at the free market rate to pay its foreign creditors. Recall that COFISA had been created by USAID in 1963 as a financial institution in order to support the development of the private sector (similar institutions were created all over Central America), as an alternative to the public banking system. This gave USAID a special interest to assist COFISA. In 1982, USAID decided to make a loan agreement for 10 million dollars for two main purposes, although the initial disbursement was made in mid 1985, when COFISA had already reached an agreement with its foreign lenders. First, to reestablish COFISA as a development oriented financial institution. Second, to assist with the resolution of the current productive private sector liquidity crisis. Third, to enhance the capacity of the productive sector to earn foreign exchange. USAID also granted a colon equivalent to 5 million dollars loan.

Results USAID's assistance was important to reestablish COFISA's financial soundness, although COFISA also made important efforts to complement the assistance. COFISA turned its emphasis to development lending and trust funds management.

As intended by the projects, most of the loans were development loans fulfilling the additionality criteria set by USAID, and aimed at financing non traditional export activities. There is less development lending for the colones than for the dollar portfolio. However, in the first years COFISA assumed a high risk in many projects and, therefore ended with a

high percentage of non performing loans COFISA placed the funds in a relatively short period, which could explain the inadequate project selection Since 1990-1991, when a new management arrived (before that, the manager was a former USAID's staff member in Costa Rica), COFISA has decided not to involve itself in development loans unless the collateral is sufficient, the project belongs to well-known people and similar lower-risk conditions COFISA started paying back the loan to USAID in 1993 and still owes 7 million dollars

COFISA was highly dependant from USAID's financing during the 1983-1985 period, but then started to reduce this dependance Moreover, when the former USAID's staff member was COFISA's manager, USAID's influence was high This has changed specially since 1990-1991 Over the years, also, COFISA's staff has gained considerable experience in development lending

C 5 Impact and lessons of development lending projects

USAID's support created project lending capabilities within the financial sector USAID's support for the four analyzed projects achieved one of the most important goals, to create effective project lending capabilities In the early eighties, the banks lacked any experience in analyzing, evaluating and monitoring development loans (projects) An additional difficulty was that these loans were to be granted to the new non traditional exports sector, where more risk was present

USAID's support was justified USAID's support to the lending institutions for this purpose, indeed, was useful to create the necessary learning process It was useful, specially, because there were no other sources of funds for this purpose and because a subsidy was necessary in the first years (not later) in order to stimulate the participation of the private banks in these riskier banking activities

Project lending activities within the banks have become permanent The private banks and PIC have new sources of funds, mainly from other donors, for project lending activities These new sources, however, do not have a subsidized component This means that the banks have been able to develop a technology and a cost structure for these activities which allows them to participate without the need of subsidies Additionally, non traditional export activities, in many cases, are no longer so "non traditional", so that they involve lower risks than in the early eighties

Project lending has supported mainly well known entrepreneurs, high collateral and lower relative risk projects Besides the initial experience within PIC, banks and PIC have been largely concerned not only in the fulfillment of USAID's projects guidelines (to finance non traditional export projects with an "additionality" criteria), but also in the financial soundness of the institutions themselves As a result, although the beneficiaries have been clearly non traditional export projects (many start-up ones) with higher than normal risk, it is also true that banks and PIC have tried to maintain or improve a good quality portfolio by asking for better collateral, by granting loans to well known entrepreneurs and by selecting the less riskier non traditional export sectors

Excessive amount of resources in relation with the sector's requirements were in place during the first years of USAID's projects, because of insufficient demand and support from other donors USAID's support to finance the export sector was simultaneous to the World Bank's and IDB's support for this same purpose Specifically, in 1984, the FOPEX

revolving fund was established with three foreign exchange loans which amounted to 68.7 million dollars (24.7 from the World Bank, 24.75 from IDB and 5 from Bladex). This fund was established for short term financing for exporters in the non traditional markets sector. Moreover, in the previous years, the World Bank had also supported FODEIN (Industrial Development Fund) which provided long term financing for export oriented and efficient import substitution industries. In both cases, FOPEX and FODEIN, the loans were made to the Central Bank of Costa Rica, which established rediscounting facilities for the commercial banks. The World Bank's loan to establish FOPEX included conditionalities related to the financial sector, but not to the trade policies.

During the first years of USAID's projects, resources were in excess of demand mainly because there were not so many export projects and because there was a reluctance from companies to engage in foreign exchange loans. On the other hand, there was a lack of coordination among donor agencies which ended in excessive funds made available to the non traditional export sector during the early eighties.

In FOPEX, at least, private banks have had a predominant participation. This is an interesting result that gives USAID's projects a high grade in terms of their support to non traditional exports financing through private banks.

The main lessons are: First, project lending specialized institutions have more difficulty in showing a good financial performance than mixed services institutions (with both commercial and development lending areas). This may be a problem for privately owned organizations. Second, USAID should be more flexible in its guidelines (criteria for a project to be eligible, lending conditions) as long as the goals are fulfilled. In the case of PIC, USAID's rigidity has not only affected the organizations' lending decisions, but also the relations with other donors which are unwilling to participate where USAID is present. Third, the amount of the support must be more adequately determined in relation with, both, potential demand and support from other donors. This would avoid the inefficient use of resources.

D FUNDEX

Conception and purpose FUNDEX was created in October, 1990 by a joint local currency subprogramming agreement between the Government and USAID with a 27 million colon equivalent endowment. The fund was created to support non traditional export projects, including CINDE's activities as long as "its high performance standards were maintained in the judgement of FUNDEX's Board of Directors" (Lanza, 1994).

This new approach tried mainly (a) To assure that there was competition for the limited resources, i.e., that other organizations besides CINDE could also be assisted. (b) To have more control on the use of the funds. CINDE had always received funds directly from USAID projects or ESF local currency counterpart. There was a perception, however, that some waste of resources took place, so that more control was needed. With FUNDEX, CINDE would receive resources if and only if its programs showed results. Another feature is that FUNDEX finances a maximum of a 60 percent of the project, except in the case of CINDE.

In the first years there was not an established methodology to measure results. Later,

a methodology was introduced in which the projects' implementors have to report "outputs" and/or the impact attributable to the project. It is mainly the Board of Directors, integrated by prominent people in the country, which approves or disapproves the financing of any particular project according to the "impact" criteria. Until now, the government's influence has been minimum in these decisions.

During the first years, the initial fund decreased. Currently, FUNDEX can only spend the part of the interest income above the inflation component.

Results In the first two years (1991 and 1992), for instance, CINDE received 3.1 and 3.8 colon equivalent, respectively, and was the only organization funded by FUNDEX. In 1993 and 1994, it received much less, 1.5 and 0.5 colon equivalent. There is a perception within FUNDEX that CINDE is not producing results. CINDE has not been able to cover its operation costs with its own funds (interest from own capital), although there is a plan to do so by 1996.

In the 1993-1995 period, other projects besides CINDE have been financed. CINDE, however, still represents the most important project in FUNDEX's portfolio in terms of allocated funds. Some of the other most important organizations receiving funds are CENPRO, FUCODES, FUNDES, ACOGE, ICT, UCCAEP and COMEX.

CENPRO's projects were to promote participation in international fairs and missions, and to support CENPRO's efforts in the establishment of the one stop window, FUCODES's project was to grant credit to small and micro enterprises in non traditional export activities in the Atlantic zone, FUNDES's project was to finance non traditional export firms through the discount of commercial paper, ACOGE's project was to identify sectors with export capacity, create an auto-diagnosis manual, apply it to the selected sectors and design and implement a training program to strengthen those areas that were determined to be weak by the diagnosis, UCCAEP's project was a training and dissemination program related to the scope and implications of the free trade agreement between Costa Rica and Mexico, and the COMEX's project was to finance two studies, one which defined a plan to increase Costa Rica's exports to 5,000 million dollars by the 2000 year and other which evaluated the short term impact of the Costa Rica-México free trade agreement.

Impact and lessons Although it is too soon to draw any conclusion about the impact of FUNDEX or the specific projects it has financed, it is valid to assert that the selection of projects must try to respond not only to "output-impact" criteria, but also to sustainability criteria.

E CENPRO

As was already mentioned, CENPRO was not considered an adequate institution to adopt the mandate that was given to CINDE in the early eighties. Moreover, there was a sense of unreliability on CENPRO, such that no coordination existed between CENPRO and CINDE during the first years of existence of CINDE. It was until Carlos Torres, former staff member of CINDE, that some coordination appeared and that CENPRO started to receive support from USAID in specific projects.

The main projects that USAID financed were the one stop window for exporters, the automatization of the export contract and the participation in international fairs and missions. In general, these projects would have been carried out by CENPRO even without USAID's

support. However, the funds themselves and the possibility to make the required steps outside CENPRO with more flexibility, allowed that the projects were completed in a shorter time in the case of the one stop window and the automatization of the export contract. In the case of the international fairs and missions, the additional funds made available to CENPRO allowed the participation in more important events.

In 1984, CENPRO benefited from a 0.3 million dollars project from the World Bank (this was a component of the Export Development Loan which was mainly to establish FOPEX). It was a technical assistance project aimed to design and operate export and investment promotion programs, to finance special studies and to strengthen the management and marketing capabilities of Costa Rican export marketing companies and export firms (Project Completion Report-Export Development Loan). In the Project Completion Report, it was determined that, besides other problems, the creation of CINDE made entrepreneurs lose interest in CENPRO and reduced the impact of the investment promotion program. In general, it appears that no coordination existed among USAID and the World Bank.

Activities (a) One stop window for exporters. The support for this project started in 1988 under the PL-480. At that time, the exporters had to visit different public institutions and ministries in order to complete the necessary documents to export. CENPRO lacked the sufficient funds to establish a one stop window for exporters that would centralize the export red tape in one single office. Moreover, as a public institution, CENPRO would have needed a longer period to carry out the necessary steps to establish this one stop window, because of the required procedures within the public sector.

The idea of the one stop window was to simplify the red tape (simplify the export form, e.g.), to automatize the procedures and to establish a single office in CENPRO in which these procedures could be done. Moreover, a one stop window was established in other locations (Juan Santamaria Airport, Caldera, Limon, Peñas Blancas and Paso Canoas). USAID's support was used to establish the physical infrastructure, and to finance the purchase of computing equipment, software and information transmission services between offices. A consulting firm was also contracted by USAID to help CENPRO create the one step window.

The one step window already operates and has allowed the reduction in the time spent in the processing of export forms from weeks to a few hours (Lanza, 1994). CENPRO is charging a fee for this and other services in order to generate income, and is continuously reviewing the fees. By 1990, CENPRO was already covering a 45 percent of its budget with these sources of income.

(b) International fairs and missions. CENPRO participated in these activities even before CENPRO started to receive support. USAID helped CENPRO, however, to participate in more important but also more costly fairs. USAID funds were used mainly for the renting of the stand and the samples' transportation. Participation in the fairs is related to the exporting firms' interests. In some cases, the participation was proposed by CENPRO and in others by the firms. In any case, a minimum number of exporting firms must be interested in order to approve the participation in that fair.

In the last years, FUNDEX has supported these activities and evaluations are made. These evaluations try to assess the quality of the help provided by CENPRO and the potential and real sales made by the participant firms.

If no outside support was available, CENPRO would have to be more selective in the fairs it participates or the exporters would have to increase their contribution. On the other hand, there are other sources of funds for the support of these activities. In the past, GTZ (Germany) and Suedcorp (Sweden) have helped.

(c) Automatization of the export contract and drawback system. Before this project, CENPRO manually administered the export contract and the drawback system. There were approximately 1,200 contracts which made the administration and control very difficult. Additionally, there was no connection with the one stop window and the Central Bank wanted to stop administering the CATs. In 1989-1990, CENPRO received support from USAID to automatize the systems, mainly to purchase the computing equipment and the software.

The new automatized system allows the exporters to fill in the necessary information in diskettes and give it in that form to CENPRO. In this way, CENPRO is able to authorize the concession of an export or drawback system contract and to approve the annual reports handed in by exporters in a shorter time than before the automatization. Moreover, CENPRO is able to recommend (Ministerio de Hacienda approves) in a shorter time the exemptions under the export regimes, and this procedure is now part of the one step window.

IV GENERAL IMPACT EVALUATION

USAID projects in the trade policies and institutions sector correspond to two different stages: the industrialization based on the import substitution strategy and the outward-oriented strategy. On each stage, different ideas and perception of reality prevailed.

A High Development 1961-1972

Underlying ideas. After World War II, most developing countries adopted the import substitution strategy with the purpose of developing the manufacturing industry which was taken as a synonym of modernization. Agriculture, on the other hand, was neglected. The main arguments in favor for adopting the import substitution strategy were the infant industry argument, pessimism about the future prices of primary commodities and the belief that the labor supply in developing countries was perfectly elastic (Krueger, 1991). The infant industry argument claimed for a temporary protection for local industry in order to give it a learning process period and to compensate for the positive externalities generated by new industries. The pessimism about international terms of trade was based on the belief that the price elasticity of the demand for primary commodities was low, developed countries were starting to use synthetic substitutes and technological innovations were reducing the need for raw materials in the production processes. On the other hand, there was the belief that imports would continue growing, increasing the need for foreign exchange.

Under the optimum intervention theory, a production subsidy would have been better than a tariff in order to protect the local industry. The latter was accepted, however, based on fiscal revenue grounds (Krueger, 1991).

Besides the strong concern on market failures, which led to a great extent to the import substitution strategy, there was also a strong belief on government's intervention effectiveness (Krueger, 1991). This belief influenced not only the government's role in the

industrialization process, but also on other policy areas. It was thought that the government could "plan" development: choose the infant industries, the magnitude of the protection and so forth, and also that property rights did not matter, so that the government had as its purpose the pursue of social welfare.

USAID projects' concept and timing After World War II and until the late fifties, the US Government was seeking to enforce long term free trade and free enterprise. The US Government opposed ECLA's ideas regarding economic integration, considering them contradictory to free trade and free enterprise. In 1959, however, the US changed its attitude by supporting the economic integration in Central America, although under several conditions (Cohen, 1972). This change in attitude responded, to a great extent, to political reasons, mainly the Cuban situation and its potential threat to the region. It is important to point out that the US Government's conditions showed differences with ECLA's original proposal, mainly in terms of less protection from non-members, liberalization in all (not selected) commodities, shorter term for the completion of the liberalization process, no support to integration industries and free trade for labor and capital. At the end, thus, the US Government adopted the underlying ideas at that time in the developing countries, although pushed by the political context and trying to inject some of its own concepts into the prevailing ones, some of which were introduced in the General Treaty of 1960 and some were not.

The financial support from the US became critical for the Central American countries to give the last step towards economic integration. In this way, USAID started to support this process through regional activities under the Alliance for Progress. The first grant made by the US was to establish a regional financial institution (BCIE). Moreover, ROCAP (a regional office of USAID) was created in 1962.

The reluctance of the countries to act in a regional basis (national concerns prevailed above regional concerns) shows, however, that, although USAID's support corresponded to the underlying ideas of the time and to the policies Costa Rica was implementing as part of the economic integration process, its regional approach was wrong at that time and probably affected negatively the projects' impact. This was reflected in several areas: agriculture, financing, technology and training programs. Many of the projects supported by USAID and other organizations required contributions from the Central American countries. In many instances, they were reluctant or slow to fulfill their compromise (ICAITI, ICAP, e.g.).

Impact of the import substitution strategy on the sector's performance As was explained in Section II, the industrialization process was based on an import substitution strategy. In the first years, the process led to a significant increase in industrial production and exports to the CACM. In the later years, however, the process decelerated. In the long run, the strategy was incorrect because the industrialization process was based mainly on the excessive and non-temporary protectionism rather than on the enlargement of the market, both, because the size of the market was insufficient and because free trade in all commodities was not achieved.

The exports to third markets were insignificant, on the other hand. By 1972, only a 7 percent of total exports were non traditional. In the late seventies, however, some positive but insufficient results appeared in this area. Non traditional exports (mainly in the industrial sector) represented between 12 and 15 percent of total exports during the second half of the

seventies (Céspedes, et al , 1986)

After ten years of CACM, it was clear that the production diversification process of the Central American countries was insufficient and that the strategy had created a greater rigidity in the imports structure and low value added industries, which were not within the expected results of the Alliance for Progress. These results, however, were inherent to the incentives created during this period. Besides the anti-export bias that the protection of the domestic and regional market created, the lack of competition led to many inefficiencies, such as use of non-optimal plant sizes, X-inefficiencies and, in general, insufficient conditions to export to world markets.

The Subcommittee that evaluated the advances of the Alliance for Progress and made recommendations based on those evaluations, also felt the need to enhance diversification of agricultural production and to define a regional agricultural policy allowing free movement of agricultural products. This was not achieved during the import substitution strategy period, which is not surprising given the bias in the relative prices towards industrial production.

In other words, some of the expected results were never to be achieved under an import substitution strategy that created a bias against exports, agriculture and inputs and capital goods import substitution industries.

B Stabilization/Restructuring 1982-1993

Underlying ideas After several decades of the prevalence of inward-oriented development beliefs, theory and evidence strongly questioned them. The main consequence of this change in economic development thought has led developing countries from inward-oriented strategies to outward-oriented strategies. The main criticism of the import substitution strategy was the high costs it generated. First, consumers were paying higher domestic prices and consuming lower quantity and quality of the goods. Second, allocation of resources was highly inefficient and was biased against export activities. Third, industries did not take advantage of scale economies because of the market size limitations. Fourth, lack of competition inhibited the efforts to improve the quality of the goods produced and to make technological changes or product innovations. Lack of sufficient competitive pressures led, in general, to X-inefficiencies. Fifth, costs of rent-seeking activities have not been negligible. Sixth, evidence on the contrasting experience of outward-oriented countries with inward-oriented ones in terms of growth rates created even more skepticism towards the prevailing strategy (Krueger, 1991).

Although it became widely accepted the idea that inward-oriented strategies have high costs for the economies, there was the issue of which policies to use to reorient the strategy outwardly. One possibility was eliminating trade barriers, depreciating the local currency and, in general, leaving the market forces to allocate resources. The other possibility was to use export incentives to neutralize the anti-export bias without totally eliminating trade barriers and adequately depreciating the local currency. This second option was justified by three arguments (The World Bank, 1987). First, depreciation could be inflationary. Second, fiscal revenue losses could become a problem. Third, resistance from protected sectors influenced the choice of this incentive-based scheme.

The export incentives-based strategy does not benefit a country in the long term for

several reasons. First, the dispersion in the effective protection for local industries still maintains an inefficient allocation of resources. Second, the exchange rate does not reflect the equilibrium level and still creates an anti-export bias. Third, the fiscal burden of export incentives becomes unsustainable. Fourth, countervailing duties applied by importing countries reduces the effectiveness of the incentives. Fifth, this new protectionism feeds the rent seeking and DUP activities. Sixth, less pressure exists to remove all sort of cost distortions that affect exporters.

USAID projects' concept and timing In the early eighties, USAID projects supported an outward-oriented strategy based on export incentives or, at least, did not opposed it. Costa Rica was going through an economic crisis that affected the productive sector. At the same time, the CACM practically collapsed. Therefore, entrepreneurs faced a difficult crossroad. Under these circumstances, it can be said with little doubt that it was politically impossible to implement an outward-oriented strategy based on the elimination of trade barriers. The Government, together with the private sector, promoted the idea of creating the Export Contract, together with other initiatives which were discussed in Section I. Costa Rica, thus, chose an outward-oriented strategy based on export incentives and it was not until 1986 that trade liberalization began and with a lot of gradualism, supported by the World Bank and USAID. In fact, it was not until 1990 that tariffs fell to a 5-40 percent level and until 1993 to a 5-20 percent level. In contrast, it was since 1983, that the exchange rate policy has been, in general, consistent with an outward-oriented strategy, although with some periods of overvaluation of the local currency.

The US Government had an urgent need to give economic support to Costa Rica and, in general, to Central America, as was established in the Kissinger Commission Report. The support to Costa Rica was particularly motivated by Costa Rica's importance as a democratic country within a politically disturbed region. USAID was not convinced of the long term sustainability and convenience of an export-incentives based strategy. However, these considerations were placed in a secondary level in spite of the political context.

By 1983, USAID had as one of its main objectives the promotion of exports and investment and several efforts were to be made in order to achieve that goal (Chaj, 1983). The efforts were to be done in the provision of technical assistance to both private and public sector to identify and solve problems related to foreign investment and exports, the financial support to the Government for the improvement of its export and investment promotion efforts, development and financing of CINDE and, collaboration in the implementation of private sector initiatives for management training, technology transfer, investment promotion and export marketing.

In general, the objectives of the USAID projects was not only consistent with the outward-oriented strategy that Costa Rica was following, but the projects themselves played an important role in creating an environment conducive to exports. Moreover, the timing of the projects was adequate. Recall that the eighties were intensive in trade and related policy reform, such as exchange rate policy, export incentives, trade liberalization, international and bilateral agreements, and such, much of which was influenced by USAID. The impact of USAID's projects under this scenario raises two comments. First, the attribution of the non traditional export sector's development to USAID's projects is very difficult, in spite of the simultaneous impact of those policies. Second, without doubt it can be asserted that without

the environment induced by these and other economic policies, USAID's efforts would have been sterile. The Government commitment to an outward-oriented strategy was highly influential in the results of USAID's projects.

Impact of the export promotion strategy on the sector's performance The results at a macro level of the outward-oriented strategy are very positive. As mentioned in Section I, non traditional exports now represent an important proportion of total exports and have been continuously growing. The export diversification goal has been achieved, both, in the industrial and agricultural sector. The entrepreneurs and labor force have acquired the knowledge and the skills to sell to more sophisticated markets. The sector has depended, however, on the existence of export incentives, which are unsustainable and are to end in the next years. To some extent, the urgency to remove internal distortions and, in general, conditions that reduce exports' competitiveness, has not been so large in spite of the compensating incentives.

Important steps have been taken in some areas, particularly trade and price liberalization. However, distortions persist in other markets, such as labor and capital markets, and the inadequate infrastructure still represents a bottleneck for exporters. In a more free trade environment and with export incentives near their end, the need to remove those bottlenecks and internal distortions will emerge more strongly.

CINDE's impact concluding remarks Enough has been said about the impact of each of the projects in the previous separate sections. It is important to point out some general comments about CINDE's impact as a whole. First, as a reference information but without any attempt from the part of the author to issue any judgement of this respect, Lanza (1994) claims that 347 million dollars of exports and 35,766 jobs can be attributed to CINDE after ten years of operation.

Second, during its first years, CINDE was perceived as an important organization in the promotion of a favorable environment for non traditional exports and of foreign investment. Most of the lobbying efforts are beneficial in the long term for the country (exchange rate policy, export tax policy, bottleneck-removal), others are beneficial in the short term (export contract, free zone and drawback systems) and others are prejudicial and even inconsistent with other USAID projects (FODEA Law).

In the late eighties and early nineties, however, CINDE's cost effectiveness was questioned and, simultaneously, USAID was in a general trend of reducing its aid. Although CINDE is a private sector institution, it has no "owners" and has no "maximizing profit objective" as all private enterprises have. On the contrary, in these respects CINDE is more a quasi-governmental institution. This property rights system has very likely led to a bureaucratic-high cost organization. This scheme has two advantages. First, it reduces the possibility of political interference. Second, it allows the projects to be implemented on a more flexible way. It has the disadvantage, however, of not being driven by cost efficiency incentives.

Third, CINDE has shown a continuous redefinition of its objectives and its corresponding programs and activities. There has been a "learning by doing" process. This redefinition responds, in some cases, to changes in the country's economic conditions, in the export sector's needs and in the funding constraints. This flexibility is a positive factor in terms of the responsiveness capability it gives to CINDE. However, in the last years, the

institution has lacked a "focus" and has become disperse and atomized in its activities. Moreover, during some periods, some activities had to be implemented by CINDE but had no relation with its goals and objectives. Decision makers in USAID, both in Washington and in Costa Rica, have had a major role in this objectives rearrangement (Jackson, 1988). Finally, this "learning by doing" process has also implied inefficiencies in the use of funds and time.

Fourth, concerning CINDE's sustainability, it is important to point out that, initially, it was created as a finite life project. However, after several years, no sustainability existed, both in terms of funding and in terms of the possibility of other organization taking the place for CINDE's activities. When USAID's funding started to decrease, CINDE started to make some efforts to obtain additional sources of funding. Since then, it has started to perform activities oriented to generate income. One of its goals for 1996 is to cover operating expenses with its own funds.

The possibility of CINDE to obtain additional funds from any source is doubtful, mainly because it has lost its "north", its activities are very atomized and it has lost impact. Of course, the impact has been lost, also, because the urgency of the changes has declined. CINDE's sustainability highly depends on its ability to identify its new role in a different stage of export development. First, because a well-defined role will allow CINDE to gain effectiveness and, second, because other donors may be willing to give funding to a more clearly oriented-more effective institution. This redefinition must take place in complete coordination with the Government, which is also trying to create a new organization (PROCOMER).

There is a draft law for the creation of PROCOMER which proposes the unification of the activities of CENPRO, Free Zone Corporation and the National Council for Investments. The institution would have a Board of Directors composed of, both, public and private sector representatives, and would be financed both, by public and private financial resources.

Lessons Besides the lessons indicated in the specific projects, there are general ones. (a) For USAID

A long term strategy and well-defined and beneficiary-driven objectives must be in place. USAID's projects must be consistent within a long term strategy supported by the country. If not, the results may not be sustainable. The projects must also have well-defined objectives. This is important not only to avoid waste of resources but also to avoid too much dispersion in the activities and, thus, loss of impact. The objectives and activities must respond to the long term strategy and the beneficiaries' needs.

The most effective projects seem to be those which have wider impact activities. Lobbying and policy dialogue conducive to adequate policies (those that point in the right direction in terms of "state of the art" and the country's environment) classify in this type of activities. In this respect, it is important that USAID support in these activities be consistent among all its projects (there must not be contradicting efforts). Effectiveness seems also important in the identification and solution of bottlenecks.

This type of support plays an important role in the decision making process particularly at the early stages of reform processes.

Contrary to the above lesson, micro level projects (directed to firms or sectors)

specific needs) have less impact and are less justified This type of projects contradict competitive neutrality and stimulates interest group pressures On the other hand, they need to be justified on a cost-benefit analysis, even if they are justified for the existence of market failure

USAID must emphasize greater coordination among different programs and among private and public institutions This is important in order to avoid duplicity, waste of resources and inconsistency

USAID must find a balance between flexibility and control Although control on the use of funds is crucial, it is also true that USAID must not put rigid rules in its projects that do not affect this control Moreover, lack of flexibility in some of the rules may not be consistent with the beneficiaries' needs USAID's direct interference in the implementing decisions within the projects is not convenient, either

(b) For the country

The country must implement projects if and only if it has a plan to attain sustainability from the beginning This condition means not only that the projects must respond to a long term strategy of the country, but also that their funding must be assured This funding may come not only from USAID or other donors, but also from the Government or the beneficiaries' contribution This is an important lesson, also, for USAID

The country must try to assure that the economic conditions are the appropriate ones for the projects' implementation No project is effective if the country has no commitment with the underlying concept that generated the project, that is, with the long term strategy Moreover, inadequate timing may lead to a waste of resources (e g BANEX Trading)

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VI PEOPLE INTERVIEWED

Edgar Quirós, former President at CAAP/CINDE and CNAA
Guillermo Serrano, General Manager at COFISA
Federido Vargas, former Executive Director at CINDE
Jennifer Morsink, former Executive Director at FUNDEX
Samuel Yankelewitz, former President of the Chamber of Industry
Eduardo de la Espriella, former General Manager at CAAP/CINDE
Rocio Aguilar, Credit Manager at BANEX
Eduardo Alonso, former Executive Director at CENPRO and Vice-
Minister of Foreign Trade
William Hayden, former General Manager at PIC
Roberto Rojas, former Minister of Foreign Trade
Mario Carvajal, former Director of the Export Promotion Program
and first Minister of Foreign Trade
Richard Beck, Honorary President at CINDE
Rodrigo Ortiz, former General Manager at PIE/CINDE
Gabriela Lobo, former Executive Director at CENPRO
Ernesto Lara, former President of the Chamber of Industry
John Holder, Investment Promotion Advisor, USAID
Luis Solera, USAID
Arturo Villalobos, USAID
Aaron Williams, former Head Private Sector Office, USAID